

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF THE VILLAGE OF DOUGLAS</b>	County <b>ALLEGAN</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/6/05</b>	Date Accountant Report Submitted to State: <b>12/27/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

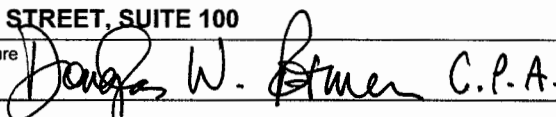
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>FERRIS, BUSSCHER &amp; ZWIERS, P.C.</b>			
Street Address <b>675 E. 16TH STREET, SUITE 100</b>	City <b>HOLLAND</b>	State <b>MI</b>	ZIP <b>49423</b>
Accountant Signature  <b>Douglas W. Bramer C.P.A.</b>		Date <b>12/27/05</b>	

CITY OF THE VILLAGE OF DOUGLAS

FINANCIAL STATEMENTS

JUNE 30, 2005

## INDEX

### Page

#### INDEPENDENT AUDITOR'S REPORT

#### BASIC FINANCIAL STATEMENTS

##### Government-wide Financial Statements

Statement of Net Assets .....	1
Statement of Activities.....	2

##### Fund Financial Statements

Balance Sheet – Governmental Funds .....	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets .....	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	6

Notes to Financial Statements.....	7-18
------------------------------------	------

#### REQUIRED SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	19-20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Highway Fund .....	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Water and Sewer Revolving Fund .....	22

#### ADDITIONAL INFORMATION

##### Non-major Governmental Funds

Combining Balance Sheet.....	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	24

October 6, 2005

City Council  
Douglas, Michigan

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the City of the Village of Douglas, as of and for the year ended June 30, 2005, as listed in the index. These basic financial statements are the responsibility of the management of the City of the Village of Douglas. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of the Village of Douglas as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements listed in the index are presented for purpose of additional analysis and are not a required part of the basic financial statements of the City of the Village of Douglas. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Ferris, Busscher & Zwiars, P.C.*

FERRIS, BUSSCHER & ZWIERS, P.C.  
Certified Public Accountants  
Holland, Michigan

675 East 16th Street  
Suite 100  
Holland Michigan 49423  
Phone: (616) 392-8534  
Fax: (616) 392-7299  
[www.fbzcpa.com](http://www.fbzcpa.com)

## BASIC FINANCIAL STATEMENTS

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Primary <u>Government</u>
	Governmental <u>Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,451,205
Receivables, net	465,439
Prepays and other assets	8,205
Capital assets	
Land	50,000
Construction in progress	30,456
Other capital assets, net of depreciation	<u>1,349,339</u>
<b>TOTAL ASSETS</b>	<b>\$ 3,354,644</b>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 338,035
Long-term liabilities	
Due within one year	45,971
Due in more than one year	<u>408,870</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 792,876</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 974,954
Restricted for	
Major Streets	87,546
Local Streets	102,484
General Highway	617,589
Police Training	977
Unrestricted	<u>778,218</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 2,561,768</b>

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental activities			
Legislative	\$ 13,053	\$ -	\$ -
General government	372,566	11,468	-
Public safety	893,020	432,479	28,749
Public works	344,804	241,741	121,655
Recreation and cultural	73,301	16,462	15,180
Interest on long-term debt	<u>19,302</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,716,046</u>	<u>\$ 702,150</u>	<u>\$ 165,584</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,716,046</u>	<u>\$ 702,150</u>	<u>\$ 165,584</u>

General revenues

Taxes

    Property taxes, levied for general purposes

    Property taxes, levied for debt service

    Property taxes, levied for roads

State shared revenues

Unrestricted investment income

Miscellaneous

    Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - JULY 1, 2004

NET ASSETS - JUNE 30, 2005

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue Governmental Activities</u>
\$ -	\$ (13,053)
-	(361,098)
-	(431,792)
-	18,592
-	(41,659)
-	(19,302)
<u>\$ -</u>	<u>\$ (848,312)</u>
<u>\$ -</u>	<u>\$ (848,312)</u>

\$ 608,774  
 46,582  
 519,021  
 106,974  
 31,312  
18,267

\$ 1,330,930

\$ 482,618

2,079,150

\$ 2,561,768



CITY OF THE VILLAGE OF DOUGLAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 383,548	\$ 782,114	\$ -
Receivables, net	6,509	565	750
Receivables from other governments	88,386	-	344,741
Prepaid expenditures	<u>7,887</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 486,330</b></u>	<u><b>\$ 782,679</b></u>	<u><b>\$ 345,491</b></u>
<b>LIABILITIES</b>			
Bank overdraft	\$ -	\$ -	\$ 50,490
Accounts payable and accrued expenses	71,556	159,827	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>750</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 71,556</b></u>	<u><b>\$ 159,827</b></u>	<u><b>\$ 51,240</b></u>
<b>FUND BALANCES</b>			
Unreserved - reported in:			
General Fund	\$ 414,774	\$ -	\$ -
Special Revenue Funds	-	622,852	294,251
Capital Project Fund	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES</b>	<u><b>\$ 414,774</b></u>	<u><b>\$ 622,852</b></u>	<u><b>\$ 294,251</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$ 486,330</b></u>	<u><b>\$ 782,679</b></u>	<u><b>\$ 345,491</b></u>

See notes to financial statements

Non-Major Funds	Total Governmental Funds
\$ 336,033	\$ 1,501,695
5,374	13,198
19,114	452,241
<u>318</u>	<u>8,205</u>
<u>\$ 360,839</u>	<u>\$ 1,975,339</u>
\$ -	\$ 50,490
37,080	268,463
<u>-</u>	<u>750</u>
<u>\$ 37,080</u>	<u>\$ 319,703</u>
\$ -	\$ 414,774
254,297	1,171,400
<u>69,462</u>	<u>69,462</u>
<u>\$ 323,759</u>	<u>\$ 1,655,636</u>
<u>\$ 360,839</u>	<u>\$ 1,975,339</u>

CITY OF THE VILLAGE OF DOUGLAS  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
JUNE 30, 2005

Fund balances - Total governmental funds	\$ 1,655,636
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - Capital assets	2,002,577
Deduct - Accumulated depreciation	(572,782)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - Installment notes payable	(454,841)
Deduct - Compensated absences	(67,582)
Deduct - Accrued interest on long-term debt	(1,990)

Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.

Add - Deferred revenue	<u>750</u>
------------------------	------------

Net assets of governmental activities	<u>\$ 2,561,768</u>
---------------------------------------	---------------------

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>
REVENUES			
Taxes and special assessments	\$ 608,774	\$ 519,021	\$ -
Licenses and permits	83,077	-	-
State shared revenues	112,748	-	-
Contributions from local units	428,846	-	-
Grant revenue	28,749	-	-
Charges for services	90,676	-	118,988
Fines	4,759	-	-
Interest	15,299	5,263	6,055
Other revenue	<u>382</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 1,373,310</u>	<u>\$ 524,284</u>	<u>\$ 125,043</u>
EXPENDITURES			
Current operating			
Legislative	\$ 13,053	\$ -	\$ -
General government	335,702	-	-
Public safety	874,118	-	-
Public works	165,231	-	23,258
Recreation and cultural	46,262	-	-
Debt service			
Principal	46,008	-	-
Interest and other charges	16,337	-	-
Capital outlay	<u>600</u>	<u>416,027</u>	<u>96,685</u>
TOTAL EXPENDITURES	<u>\$ 1,497,311</u>	<u>\$ 416,027</u>	<u>\$ 119,943</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (124,001)</u>	<u>\$ 108,257</u>	<u>\$ 5,100</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 490,748	\$ -	\$ -
Transfers out	<u>(12,827)</u>	<u>(115,727)</u>	<u>(70,394)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 477,921</u>	<u>\$ (115,727)</u>	<u>\$ (70,394)</u>
NET CHANGE IN FUND BALANCES	\$ 353,920	\$ (7,470)	\$ (65,294)
FUND BALANCES - JULY 1, 2004	<u>60,854</u>	<u>630,322</u>	<u>359,545</u>
FUND BALANCES - JUNE 30, 2005	<u><u>\$ 414,774</u></u>	<u><u>\$ 622,852</u></u>	<u><u>\$ 294,251</u></u>

See notes to financial statements

Non-Major Funds	Total Governmental Funds
\$ 46,582	\$ 1,174,377
-	83,077
121,655	234,403
-	428,846
5,785	34,534
14,658	224,322
-	4,759
4,694	31,311
<u>15,181</u>	<u>15,563</u>
<u>\$ 208,555</u>	<u>\$ 2,231,192</u>
\$ -	\$ 13,053
-	335,702
-	874,118
138,885	327,374
17,780	64,042
68,181	114,189
3,875	20,212
<u>45,346</u>	<u>558,658</u>
<u>\$ 274,067</u>	<u>\$ 2,307,348</u>
<u>\$ (65,512)</u>	<u>\$ (76,156)</u>
\$ 198,878	\$ 689,626
<u>(490,678)</u>	<u>(689,626)</u>
<u>\$ (291,800)</u>	<u>\$ -</u>
\$ (357,312)	\$ (76,156)
<u>681,071</u>	<u>1,731,792</u>
<u>\$ 323,759</u>	<u>\$ 1,655,636</u>

CITY OF THE VILLAGE OF DOUGLAS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

Net change in fund balances - Total governmental funds	\$ (76,156)
--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital outlay	558,658
Deduct - Depreciation expense	(84,103)

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal payments on long-term liabilities	114,189
---	---------

Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.	(32,528)
---	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - Change in accrued compensated absences	1,648
Add - Change in accrued interest on long-term debt	<u>910</u>

Change in net assets of governmental activities	<u>\$ 482,618</u>
---	-------------------

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

REPORTING ENTITY

In December 2004, the Village split from Saugatuck Township and adopted a City Charter. The City is still in negotiations with Saugatuck Township regarding the split of assets between the two entities. The City is governed by an elected council. The accompanying financial statements present the City's activities for which the City is considered to be financially accountable. There are no entities which have significant operation or financial relationships with the City which should be included as component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City does not have any proprietary or fiduciary funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City's property tax is levied on each July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City of the Village of Douglas as of the preceding December 31<sup>st</sup>.

The City's 2004 ad valorem tax is levied and collectible on July 1, 2004, and it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations.

The 2004 taxable valuation of the City totaled \$93,022,708, on which ad valorem taxes levied consisted of 6.501 mills for the City's operating purposes, .5 mills for debt service, and 2.6004 mills for roads raising \$604,741 for operating, \$46,511 for debt service and \$241,511 for roads. These amounts are recognized in the respective General, Debt Service, and Special Revenue Fund financial statements as tax revenue.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The General Highway Fund accounts for the road tax resources and all non-state funded road construction projects.

The Water and Sewer Revolving Fund accounts for water and sewer connection fees for water and sewer improvements paid for by the City.



CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the City reports the following fund type:

Special Revenue Funds account for resources specifically accumulated for roads, launch ramps, and various cultural activities.

Capital Project Fund accounts for resources specifically accumulated for the Center Street improvements.

Debt Service Funds account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and conditions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	10 to 15 years
Land improvements	10 years
Water and sewer lines	40 years
Roads	20 years
Other infrastructure	10 to 40 years
Vehicles	3 to 10 years
Machinery and equipment	3 to 10 years

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide statement at year-end.

Deferred Revenue – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations – In the government-wide financial statements and in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted Net Assets – The City's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the City is the department level.

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City of the Village of Douglas incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance Favorable (Unfavorable)</u>
General Fund			
Public Safety			
Planning and zoning	\$ 98,250	\$ 99,996	\$ (1,746)
Special Revenue Funds			
General Highway Fund			
Capital outlay	395,000	416,027	(21,027)
Water and Sewer Revolving Fund			
Public Works			
Repairs and maintenance	-	23,258	(23,258)
Capital outlay	-	96,685	(96,685)
Other financing uses	-	70,394	(70,394)
Major Streets			
Public Works			
Wages – general	10,700	12,553	(1,853)
Workers compensation	200	292	(92)
Engineering	-	1,839	(1,839)
Rent – general	12,000	16,400	(4,400)
Rent – winter	257	13,348	(13,091)
Local Streets			
Public Works			
Wages – general	24,000	24,484	(484)
Wages – winter	5,500	7,249	(1,749)
Workers compensation	500	669	(169)
Rent – general	2,000	32,160	(30,160)
Rent – winter	-	13,155	(13,155)
Center Street			
Public Works			
Capital outlay	10,000	30,456	(20,456)

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Legal Non-Compliance/Violation of Finance Related Provisions – The City has not adopted a budget for the Water and Sewer Revolving Fund, which is required for all special revenue funds. The City made amendments during the fiscal year to create budget amounts. The expenditures incurred are disclosed above.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City of the Village of Douglas Council has designated one bank for the deposit of City funds. The Council has adopted a deposit and investment policy in accordance with Public Act 196 of 1997.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Total Primary Government</u>
Cash and cash equivalents	<u>\$ 1,451,205</u>	<u>\$ 1,451,205</u>
Total	<u>\$ 1,451,205</u>	<u>\$ 1,451,205</u>

The breakdown between deposits and investments is as follows:

	<u>Governmental Activities</u>
Bank deposits (checking and savings accounts)	<u>\$ 1,451,205</u>
Total	<u>\$ 1,451,205</u>

The bank balance of the primary government's deposits is \$1,457,170, of which \$100,000 is covered by federal depository insurance and \$1,357,170 is uninsured and uncollateralized.

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 4 – RECEIVABLES

Receivables as of year-end for the City's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>	<u>Non-Major and Other Funds</u>	<u>Total</u>
Taxes	\$ 1,558	\$ 565	\$ -	\$ -	\$ 2,123
Connection receivables	-	-	750	-	750
Intergovernmental	88,386	-	344,741	19,114	452,241
Other	4,951	-	-	5,374	10,325
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$94,895</u>	<u>\$ 565</u>	<u>\$ 345,491</u>	<u>\$24,488</u>	<u>\$ 465,439</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Connection fees	<u>\$ 750</u>	<u>\$ -</u>
Total	<u>\$ 750</u>	<u>\$ -</u>

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	<u>145,149</u>	<u>30,456</u>	<u>(145,149)</u>	<u>30,456</u>
Subtotal	<u>\$ 195,149</u>	<u>\$ 30,456</u>	<u>\$(145,149)</u>	<u>\$ 80,456</u>
Capital assets being depreciated				
Buildings	\$ 595,299	\$ -	\$ -	\$ 595,299
Improvements other than buildings	109,144	-	-	109,144
Machinery and equipment	344,758	47,624	-	392,382
Infrastructure	<u>152,545</u>	<u>672,751</u>	<u>-</u>	<u>825,296</u>
Subtotal	<u>\$1,201,746</u>	<u>\$ 720,375</u>	<u>\$ -</u>	<u>\$1,922,121</u>
Less accumulated depreciation for				
Buildings	\$ 131,568	\$ 36,081	\$ -	\$ 167,649
Improvements other than buildings	54,773	6,189	-	60,962
Machinery and equipment	300,259	33,615	-	333,874
Infrastructure	<u>2,079</u>	<u>8,218</u>	<u>-</u>	<u>10,297</u>
Subtotal	<u>\$ 488,679</u>	<u>\$ 84,103</u>	<u>\$ -</u>	<u>\$ 572,782</u>
Net capital assets being depreciated	<u>\$ 713,067</u>	<u>\$ 636,272</u>	<u>\$ -</u>	<u>\$1,349,339</u>
Total capital assets – net of depreciation	<u>\$ 908,216</u>	<u>\$ 666,728</u>	<u>\$(145,149)</u>	<u>\$1,429,795</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$35,171
Public works	17,431
Recreation and cultural	9,259
Public safety	<u>22,242</u>
Total governmental activities	<u>\$84,103</u>

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Construction Activities

The City has active construction projects at year-end. The projects include street paving. At year-end the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street Projects	<u>\$30,456</u>	<u>\$1,013,544</u>

NOTE 6 – INTERFUND TRANSFERS

Interfund transfers in and out as of June 30, 2005 as follows:

	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>
Major funds:		
General	\$ 490,748	\$ (12,827)
General Highway	-	(115,727)
Water and Sewer Revolving	-	(70,394)
Non-major funds:		
Union Street	-	(3,064)
Police Training	-	(8,000)
DDA	28,484	-
Center Street	100,000	-
Sewer Bond	<u>70,394</u>	<u>(479,614)</u>
	<u>\$ 689,626</u>	<u>\$ (689,626)</u>

NOTE 7 – CAPITAL LEASE

The City has entered into lease agreements as the lessee for financing the purchase of office computer equipment and police vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and net present value is as follows:

<u>Year Ended June 30,</u>	
2006	\$19,257
2007	<u>16,914</u>
Total minimum lease payments	\$36,171
Less amount representing interest	<u>2,519</u>
Present value	<u>\$33,652</u>

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 8 – LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax, sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
General obligation bonds							
Allegan County Sewer Disposal Bond	5.75%	5/1/05	\$ 68,181	\$ -	\$ (68,181)	\$ -	\$ -
Installment purchase agreements							
Chemical Bank	3.50%	7/4/17	448,402	-	(27,213)	421,189	28,444
Macatawa Bank	10.58%	8/7/06	5,423	-	(2,350)	3,073	2,611
Ford Motor Company	5.00%	9/30/06	-	47,024	(16,445)	30,579	14,916
Total governmental activities			<u>\$ 522,006</u>	<u>\$47,024</u>	<u>\$ (114,189)</u>	<u>\$ 454,841</u>	<u>\$45,971</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 45,971	\$16,018
2007	45,580	14,066
2008	30,503	12,229
2009	31,588	11,144
2010-2014	175,612	38,048
2015-2019	<u>125,587</u>	<u>7,130</u>
Total	<u>\$454,841</u>	<u>\$98,635</u>



CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance to cover all risks of losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 – CONTINGENT LIABILITIES

The City is involved in a lawsuit with the Trustees of the Dutcher Lodge No. 193, of Free and Accepted Masons, Allegan County. The lawsuit is a breach of contract action over the renovation and repair of the Dutcher Lodge conveyed to the City. The lawsuit is pending at June 30, 2005, and management cannot speculate the outcome. The amount in controversy is approximately \$30,000.

NOTE 11 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board, establishes and amends the benefits provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the rate as of June 30, 2005 is approximately 8.41 – 18.86% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$71,504 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over 30 years.

CITY OF THE VILLAGE OF DOUGLAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

NOTE 11 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Three year trend information as of December 31 (actuarial date) follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual pension cost	\$ 56,196	\$ 58,580	\$ 56,742
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 1,002,843	\$ 910,246	\$ 807,542
Actuarial accrued liability	\$ 1,366,745	\$ 1,148,309	\$ 959,299
Unfunded AAL	\$ 363,902	\$ 238,063	\$ 151,757
Funded ratio	73%	79%	84%
Covered payroll	\$ 604,063	\$ 629,531	\$ 582,811
UAAL as a percentage of covered payroll	60%	38%	26%

NOTE 12 – DEFERRED COMPENSATION PLAN

The City Council offers all City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust by a custodian, as described in IRC Section 457 (g), for the exclusive benefit of the participants and their beneficiaries, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian for the investment of the assets held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in City's financial statements.

NOTE 13 – BUILDING DEPARTMENT

Revenues	
Inspections fees	\$ 68,070
Expenditures	
Contract labor	<u>(58,568)</u>
Excess of revenues over expenditures	\$ 9,502
Cumulative excess of revenues over expenditures June 30, 2004	<u>35,184</u>
Cumulative excess of revenues over expenditures June 30, 2005	<u>\$ 44,686</u>

## REQUIRED SUPPLEMENTAL INFORMATION

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE -BUDGET AND ACTUAL-  
GENERAL FUND  
YEAR ENDED JUNE 30, 2005

	Original <u>Budget</u>	Final Amended <u>Budget</u>
REVENUES		
Taxes and special assessments	\$ 635,891	\$ 599,318
Licenses and permits	89,300	75,169
State shared revenues	109,000	115,003
Contributions from local units	384,405	373,126
Grant revenue	-	23,000
Charges for services	14,590	41,897
Fines	5,000	4,200
Interest	2,500	13,080
Other revenue	<u>-</u>	<u>371</u>
 TOTAL REVENUES	 <u>\$ 1,240,686</u>	 <u>\$ 1,245,164</u>
EXPENDITURES		
Legislative	<u>\$ 14,425</u>	<u>\$ 14,894</u>
General government		
Manager	\$ 90,030	\$ 79,844
Clerk - treasurer	132,250	135,925
Assessor	-	12,778
Legal and accounting	31,000	62,000
Building and grounds	15,113	60,350
Contingencies	(20,800)	500
Insurance - bonds	<u>39,100</u>	<u>32,635</u>
 Total general government	 <u>\$ 286,693</u>	 <u>\$ 384,032</u>
Public safety		
Police	\$ 752,518	\$ 813,630
Planning and zoning	<u>78,332</u>	<u>98,250</u>
 Total public safety	 <u>\$ 830,850</u>	 <u>\$ 911,880</u>
 Public works - highway and streets	 <u>\$ 245,906</u>	 <u>\$ 178,757</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 608,774	\$ 9,456
83,077	7,908
112,748	(2,255)
428,846	55,720
28,749	5,749
90,676	48,779
4,759	559
15,299	2,219
<u>382</u>	<u>11</u>
 \$ 1,373,310	 \$ 128,146
  <u>\$ 13,053</u>	  <u>\$ 1,841</u>
 \$ 76,182	 \$ 3,662
124,835	11,090
11,082	1,696
53,764	8,236
44,796	15,554
-	500
<u>25,043</u>	<u>7,592</u>
 \$ 335,702	 \$ 48,330
 \$ 774,122	 \$ 39,508
<u>99,996</u>	<u>(1,746)</u>
 \$ 874,118	 \$ 37,762
 \$ 165,231	 \$ 13,526

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE -BUDGET AND ACTUAL-  
GENERAL FUND (CONTINUED)  
YEAR ENDED JUNE 30, 2005

	Original <u>Budget</u>	Final Amended <u>Budget</u>
EXPENDITURES (CONTINUED)		
Recreation and cultural		
Community relations	\$ 2,000	\$ 1,500
Parks and recreation	<u>49,842</u>	<u>53,250</u>
Total recreation and cultural	<u>\$ 51,842</u>	<u>\$ 54,750</u>
Debt service		
Principal	\$ 59,232	\$ 46,545
Interest	<u>-</u>	<u>18,300</u>
Total debt service	<u>\$ 59,232</u>	<u>\$ 64,845</u>
Capital outlay		
Police	<u>\$ -</u>	<u>\$ 600</u>
Total capital outlay	<u>\$ -</u>	<u>\$ 600</u>
TOTAL EXPENDITURES	<u>\$ 1,488,948</u>	<u>\$ 1,609,758</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ (248,262)</u>	<u>\$ (364,594)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	\$ 224,881	\$ 215,813
Transfers out	<u>-</u>	<u>(15,891)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 224,881</u>	<u>\$ 199,922</u>
NET CHANGE IN FUND BALANCE	\$ (23,381)	\$ (164,672)
FUND BALANCE - JULY 1, 2004	<u>60,854</u>	<u>60,854</u>
FUND BALANCE - JUNE 30, 2005	<u><u>\$ 37,473</u></u>	<u><u>\$ (103,818)</u></u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 700	\$ 800
<u>45,562</u>	<u>7,688</u>
\$ 46,262	\$ 8,488
\$ 46,008	\$ 537
<u>16,337</u>	<u>1,963</u>
\$ 62,345	\$ 2,500
\$ 600	\$ -
\$ 600	\$ -
\$ 1,497,311	\$ 112,447
\$ (124,001)	\$ 240,593
\$ 490,748	\$ 274,935
<u>(12,827)</u>	<u>3,064</u>
\$ 477,921	\$ 277,999
\$ 353,920	\$ 518,592
<u>60,854</u>	<u>-</u>
<u>\$ 414,774</u>	<u>\$ 518,592</u>

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE -BUDGET AND ACTUAL-  
GENERAL HIGHWAY FUND  
YEAR ENDED JUNE 30, 2005

	Original Budget	Final Amended Budget
REVENUES		
Taxes and special assessments	\$ 213,000	\$ 518,456
Interest	<u>2,000</u>	<u>5,263</u>
TOTAL REVENUES	<u>\$ 215,000</u>	<u>\$ 523,719</u>
EXPENDITURES		
Public works		
Contractual administration	\$ 21,500	\$ -
Repairs and maintenance	<u>50,000</u>	<u>-</u>
Total public works	<u>\$ 71,500</u>	<u>\$ -</u>
Capital outlay	<u>\$ 20,000</u>	<u>\$ 395,000</u>
TOTAL EXPENDITURES	<u>\$ 91,500</u>	<u>\$ 395,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 123,500</u>	<u>\$ 128,719</u>
OTHER FINANCING USES		
Transfers out	<u>\$ (123,500)</u>	<u>\$ (115,727)</u>
TOTAL OTHER FINANCING USES	<u>\$ (123,500)</u>	<u>\$ (115,727)</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ 12,992
FUND BALANCE - JULY 1, 2004	<u>630,322</u>	<u>630,322</u>
FUND BALANCE - JUNE 30, 2005	<u>\$ 630,322</u>	<u>\$ 643,314</u>



<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 519,021	\$ 565
<u>5,263</u>	<u>-</u>
\$ 524,284	\$ 565
\$ -	\$ -
<u>-</u>	<u>-</u>
\$ -	\$ -
\$ 416,027	\$ (21,027)
\$ 416,027	\$ (21,027)
\$ 108,257	\$ (20,462)
\$ (115,727)	\$ -
\$ (115,727)	\$ -
\$ (7,470)	\$ (20,462)
<u>630,322</u>	<u>-</u>
\$ 622,852	\$ (20,462)

CITY OF THE VILLAGE OF DOUGLAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE -BUDGET AND ACTUAL-  
WATER AND SEWER REVOLVING FUND  
YEAR ENDED JUNE 30, 2005

	Original <u>Budget</u>	Final Amended <u>Budget</u>
REVENUES		
Charges for services	\$ -	\$ 92,300
Interest	<u>-</u>	<u>100</u>
TOTAL REVENUES	<u>\$ -</u>	<u>\$ 92,400</u>
EXPENDITURES		
Public works	<u>\$ -</u>	<u>\$ -</u>
Capital outlay	<u>\$ -</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 92,400</u>
OTHER FINANCING USES		
Transfers out	<u>\$ -</u>	<u>\$ -</u>
TOTAL OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCE	\$ -	\$ 92,400
FUND BALANCE - JULY 1, 2004	<u>359,545</u>	<u>359,545</u>
FUND BALANCE - JUNE 30, 2005	<u>\$ 359,545</u>	<u>\$ 451,945</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 118,988	\$ 26,688
<u>6,055</u>	<u>5,955</u>
<u>\$ 125,043</u>	<u>\$ 32,643</u>
<u>\$ 23,258</u>	<u>\$ (23,258)</u>
<u>\$ 96,685</u>	<u>\$ (96,685)</u>
<u>\$ 119,943</u>	<u>\$ (119,943)</u>
<u>\$ 5,100</u>	<u>\$ (87,300)</u>
<u>\$ (70,394)</u>	<u>\$ (70,394)</u>
<u>\$ (70,394)</u>	<u>\$ (70,394)</u>
<u>\$ (65,294)</u>	<u>\$ (157,694)</u>
<u>359,545</u>	<u>-</u>
<u>\$ 294,251</u>	<u>\$ (157,694)</u>

ADDITIONAL INFORMATION

CITY OF THE VILLAGE OF DOUGLAS  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005

			<u>Special Revenue Funds</u>	
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Police Training Fund</u>	<u>Douglas Historic Preservation</u>
ASSETS				
Cash and cash equivalents	\$ 75,909	\$ 99,807	\$ -	\$ 11,905
Receivables, net	-	5,148	-	-
Receivables from other governments	12,804	6,310	-	-
Prepaid expenditures	<u>96</u>	<u>222</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 88,809</u>	<u>\$ 111,487</u>	<u>\$ -</u>	<u>\$ 11,905</u>
LIABILITIES				
Accounts payable	<u>\$ 921</u>	<u>\$ 9,003</u>	<u>\$ -</u>	<u>\$ 434</u>
TOTAL LIABILITIES	<u>\$ 921</u>	<u>\$ 9,003</u>	<u>\$ -</u>	<u>\$ 434</u>
FUND BALANCES				
Unreserved				
Undesignated	<u>\$ 87,888</u>	<u>\$ 102,484</u>	<u>\$ -</u>	<u>\$ 11,471</u>
TOTAL FUND BALANCES	<u>\$ 87,888</u>	<u>\$ 102,484</u>	<u>\$ -</u>	<u>\$ 11,471</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 88,809</u>	<u>\$ 111,487</u>	<u>\$ -</u>	<u>\$ 11,905</u>

			Capital Project	Debt Service	
<u>Schultz Park</u>	<u>Union Street</u>	<u>DDA</u>	<u>Center Street</u>	<u>Sewer Bond</u>	<u>Total Non-Major Funds</u>
\$ 20,260	\$ -	\$ 33,245	\$ 94,907	\$ -	\$ 336,033
-	-	50	176	-	5,374
-	-	-	-	-	19,114
-	-	-	-	-	318
<u>\$ 20,260</u>	<u>\$ -</u>	<u>\$ 33,295</u>	<u>\$ 95,083</u>	<u>\$ -</u>	<u>\$ 360,839</u>
<u>\$ 726</u>	<u>\$ -</u>	<u>\$ 375</u>	<u>\$ 25,621</u>	<u>\$ -</u>	<u>\$ 37,080</u>
<u>\$ 726</u>	<u>\$ -</u>	<u>\$ 375</u>	<u>\$ 25,621</u>	<u>\$ -</u>	<u>\$ 37,080</u>
<u>\$ 19,534</u>	<u>\$ -</u>	<u>\$ 32,920</u>	<u>\$ 69,462</u>	<u>\$ -</u>	<u>\$ 323,759</u>
<u>\$ 19,534</u>	<u>\$ -</u>	<u>\$ 32,920</u>	<u>\$ 69,462</u>	<u>\$ -</u>	<u>\$ 323,759</u>
<u>\$ 20,260</u>	<u>\$ -</u>	<u>\$ 33,295</u>	<u>\$ 95,083</u>	<u>\$ -</u>	<u>\$ 360,839</u>

CITY OF THE VILLAGE OF DOUGLAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds			
	Major <u>Streets</u>	Local <u>Streets</u>	Police Training <u>Fund</u>	Douglas Historic <u>Preservation</u>
REVENUES				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ -
State shared revenues	82,650	39,005	-	-
Grant revenue	-	-	-	-
Charges for services	-	-	-	-
Interest	342	-	-	49
Other revenue	-	-	-	6,126
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,126</u>
 TOTAL REVENUES	 \$ 82,992	 \$ 39,005	 \$ -	 \$ 6,175
EXPENDITURES				
Current operating				
Public works	\$ 53,415	\$ 85,388	\$ -	\$ -
Recreation and cultural	-	-	-	6,625
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	14,890	-	-
	<u>-</u>	<u>14,890</u>	<u>-</u>	<u>-</u>
 TOTAL EXPENDITURES	 \$ 53,415	 \$ 100,278	 \$ -	 \$ 6,625
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 \$ 29,577	 \$ (61,273)	 \$ -	 \$ (450)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	(8,000)	-
	<u>-</u>	<u>-</u>	<u>(8,000)</u>	<u>-</u>
 TOTAL OTHER FINANCING (SOURCES) USES	 \$ -	 \$ -	 \$ (8,000)	 \$ -
 NET CHANGE IN FUND BALANCES	 \$ 29,577	 \$ (61,273)	 \$ (8,000)	 \$ (450)
 FUND BALANCES - JULY 1, 2004	 <u>58,311</u>	 <u>163,757</u>	 <u>8,000</u>	 <u>11,921</u>
 FUND BALANCES - JUNE 30, 2005	 <u>\$ 87,888</u>	 <u>\$ 102,484</u>	 <u>\$ -</u>	 <u>\$ 11,471</u>

		Capital Project		Debt Service	
<u>Schultz</u> <u>Park</u>	<u>Union</u> <u>Street</u>	<u>DDA</u>	<u>Center</u> <u>Street</u>	<u>Sewer</u> <u>Bond</u>	Total Non-Major Funds
\$ -	\$ -	\$ -	\$ -	\$ 46,582	\$ 46,582
-	-	-	-	-	121,655
5,785	-	-	-	-	5,785
10,058	-	4,600	-	-	14,658
84	-	6	-	4,213	4,694
-	-	9,055	-	-	15,181
<u>\$ 15,927</u>	<u>\$ -</u>	<u>\$ 13,661</u>	<u>\$ -</u>	<u>\$ 50,795</u>	<u>\$ 208,555</u>
\$ -	\$ -	\$ -	\$ 82	\$ -	\$ 138,885
1,930	-	9,225	-	-	17,780
-	-	-	-	68,181	68,181
-	-	-	-	3,875	3,875
-	-	-	30,456	-	45,346
<u>\$ 1,930</u>	<u>\$ -</u>	<u>\$ 9,225</u>	<u>\$ 30,538</u>	<u>\$ 72,056</u>	<u>\$ 274,067</u>
<u>\$ 13,997</u>	<u>\$ -</u>	<u>\$ 4,436</u>	<u>\$ (30,538)</u>	<u>\$ (21,261)</u>	<u>\$ (65,512)</u>
\$ -	\$ -	\$ 28,484	\$ 100,000	\$ 70,394	\$ 198,878
-	(3,064)	-	-	(479,614)	(490,678)
<u>\$ -</u>	<u>\$ (3,064)</u>	<u>\$ 28,484</u>	<u>\$ 100,000</u>	<u>\$ (409,220)</u>	<u>\$ (291,800)</u>
\$ 13,997	\$ (3,064)	\$ 32,920	\$ 69,462	\$ (430,481)	\$ (357,312)
5,537	3,064	-	-	430,481	681,071
<u>\$ 19,534</u>	<u>\$ -</u>	<u>\$ 32,920</u>	<u>\$ 69,462</u>	<u>\$ -</u>	<u>\$ 323,759</u>



October 6, 2005

City Council  
City of the Village of Douglas  
Allegan County, Michigan

Council Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of City of the Village of Douglas for the year ended June 30, 2005.

In planning and performing our audit of the financial statements of the City of the Village of Douglas for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City of the Village of Douglas' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

## **Reportable Conditions**

### *Budget Violations*

The Village violated the Budget Act for the year ended June 30, 2005 by reporting unfavorable budget variances in the General Fund and several special revenue funds. In addition, an original budget was not prepared for the Water and Sewer Revolving special revenue fund. The purpose of the Budget Act is to require that all local units of government in Michigan adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process. This act specifically states that a local unit cannot expend resources without the appropriation by the legislative body. We recommend that management monitor and

control expenditures of public monies by reviewing budget verses actual revenue and expenditure reports. If there are implications that expenditures will exceed the budget, the legislative body should adopt a resolution to amend the budget prior to the disbursement. The appropriations act is the key to controlling the finances of the City.

### *Cash Management*

The City maintains one physical checking account for all of the individual funds' cash. During the fiscal year, we noted errors in posting revenues and expenditures to the correct fund. Although the cash was correctly deposited into the checking account, the errors resulted in misstated cash and revenues/expenditures in a number of funds. It is essential that the nature of the revenue or expenditure be identified prior to posting into the general ledger. These errors were corrected during our audit via journal entries, however, the Water and Sewer Revolving fund correctly ended with a negative cash balance. Cash management is crucial to the financial stability of the City and is to be monitored closely. One area of available cash for the Water and Sewer Revolving Fund are the monies held in trust by Kalamazoo Lake Water and Sewer Authority. Management should review the ending cash balances held with the Authority and make withdrawals as deemed necessary.

### *Cash Reconciliations*

The City's checking account remained unreconciled for several months during the City's fiscal year. The City Treasurer was able to take care of the monthly reconciliations during the audit of the City's financial statements. An independent reconciliation of cash is a key internal control over cash for the prevention of errors and the detection of fraud. We recommend that management oversee the internal control process over cash to ensure timely bank reconciliations are performed by City staff.

## **Other Comments and Recommendations**

### *Construction Project Accounting*

The City routinely contracts for street and water/sewer construction projects from the same engineers and contractors in combined projects. The City commonly expenses these projects in their entirety to the various streets funds and performs year end allocations to the respective funds as audit adjustments. The allocations made at the end of the year resulted in cash deficits in the Water/Sewer Revolving Fund. The City contacted their project manager and requested cost allocations for existing and future projects on an interim basis in order for the City to make the necessary allocations between funds.

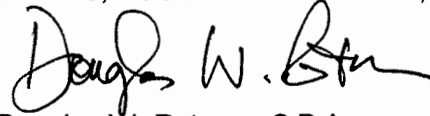
### *GASB 34 Accounting*

In order to efficiently track capital expenditures accounted for on the accrual basis statements as increases in fixed assets, we recommend that the City utilize the capital outlay expenditure accounts solely for items over the \$3,000 threshold. This procedure will limit the search for capitalizable items when GASB 34 adjustments are required at the end of the fiscal year.

This report is intended solely for the information and use of the City Council and management. If you have any questions regarding the financial statements or the above recommendations and suggestions, we would be pleased to discuss them with you.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

A handwritten signature in black ink, appearing to read "Douglas W. Rotman". The signature is fluid and cursive, with the first name "Douglas" being more prominent.

Douglas W. Rotman, C.P.A.

DWR\kc